



Market Overview

Third Quarter
2025



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THE ART OF "THE DEAL" - STAYING INVESTED IN A NOISY MARKET

The idea for investing capital is to put your assets at risk to potentially see them compound. History has shown that the "deal" for investors is the longer assets are invested the better chances for success to attain the compound growth. You may have heard clever sayings that articulate this; "The big money is not in the buying or the selling, but in the waiting", from Charlie Munger, "Our favorite holding period is forever", from Warren Buffet, or "The single greatest edge an investor can have is long-term orientation", from Seth Klarman.

In a year defined by contradiction, confusion, and constant narrative pivots, the most valuable move has been one of patience. As headlines have swung from inflation panic to all-clear, geopolitical flare-ups to AI exuberance, our strategy remained rooted in one principle: don't trade the noise; pay attention to the data.

This quarter's review is more than just a recap. It's a reflection on the power of discipline, the evolution of market leadership, and the setup we see as we move into the final stretch of 2025. Across sectors, regions, and asset classes, global markets rewarded fundamentals over fear. And in that spirit, we stayed the course.

INVESTMENT RESILIENCE AT THE CORE

Despite fears of a consumer slowdown, the U.S. economy proved resilient. Q2 real GDP accelerated to 3.8%¹, driven by robust net exports and private sector investment. Consumer strength held firm, even as job openings fell and unemployment ticked up to 4.3%². Inflation, while moderating, remained a sticky undercurrent with CPI at 2.9%³ and core PCE at the same level⁴.

THE FED TIPTOES TOWARD EASING

With inflation gradually normalizing and labor market softness surfacing, markets began pricing in rate cuts for 2026. The Fed Funds rate ended Q3 with a target range of 4.00%-4.25%, but forward market expectations suggest more rate cuts ahead⁵. The bond market responded in kind, with Treasury yields easing across the curve.

EQUITY MARKETS RECLAIM THE NARRATIVE

The third quarter saw broad-based strength in equities. The S&P 500 rose 8.1%, led by Technology, Communications, and Consumer Discretionary.

Notably, companies investing in future capacity, particularly data centers and electrification, led performance. The so-called "Magnificent 7" maintained their dominance, but dispersion is increasing.

THE U.S. YIELD CURVE (AS OF 09/30/2025)



INDEX RETURNS (AS OF 09/30/2025)

INDEX	QTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500 Index	8.12	17.60	24.94	16.47	15.30
Dow Index	5.67	11.50	19.63	12.98	13.50
NASDAQ Index (Price Change)	11.24	24.58	28.92	15.20	17.24
Russell 2000 Index	12.39	10.76	15.21	11.56	9.77
Russell 3000 Value Index	5.63	9.33	16.76	13.92	10.63
Russell 3000 Growth Index	10.41	24.79	30.76	17.03	18.26
MSCI EAFE Index	4.77	14.99	21.70	11.15	8.17
MSCI Emerging Markets Index	10.64	17.32	18.21	7.02	7.99
Barclays U.S. Aggregate Index	2.03	2.88	4.93	-0.45	1.84
U.S. Corporate High Yield	2.54	7.41	11.09	5.55	6.17
BBG/Barclays Muni Index	3.00	1.39	4.74	0.86	2.34

Source: Bloomberg, data as of September 30, 2025, annualized if longer than 1 year

¹ <https://www.bea.gov/news/2025/gross-domestic-product-2nd-quarter-2025-third-estimate-gdp-industry-corporate-profits>

² <https://www.bls.gov/news.release/pdf/empst.pdf>

³ <https://www.bls.gov/opub/ted/2025/consumer-prices-up-2-9-percent-from-august-2024-to-august-2025.htm>

⁴ <https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy>

⁵ The Fed lowered the Fed Funds rate on October 29 to 3.75% - 4.00%

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VALUATIONS: STILL RICH, BUT SELECTIVE

The forward P/E for the S&P 500 ended the quarter at 22.8x, above its 20-year average of 16.1x. We remain vigilant about valuations, taking note to participate in the market movement higher, but not tilting the portfolio for growth at any cost. The price you pay for an asset has an overwhelming determination on the future return streams. We take a cautious approach with uncertainty around future revenue growth streams for the highest valuation-oriented companies. We find it interesting that the forward multiple has remained fairly consistent throughout 2025 as prices have moved higher. This indicates that earnings are actually showing up to support these prices. Which in our view means as long as this holds true, markets can continue to see movements higher.

GLOBAL TILT GAINS GROUND

A weakening dollar provided a boost to international and emerging markets. China stimulus and favorable currency moves helped EM equities post double-digit quarterly gains. Developed markets outside the U.S. showed more modest progress compared to the gains earlier in the year. Our public equity allocation maintains roughly 30% in international investments as we maintain our belief of diversification benefits and expanded opportunity sets.

FIXED INCOME FINDS ITS FOOTING

Treasuries caught a bid higher as expectations for policy tightening faded to signs of future rate cuts. The 10-year yield slipped to 4.16%, after starting the quarter at 4.24%. Credit spreads tightened, and corporate bonds outperformed duration-matched Treasuries.

OPPORTUNITIES IN THE MIDDLE

Intermediate duration and quality credit sectors delivered decent returns. While high yield remained attractive, we are starting to lean toward higher quality exposures given tightening spreads and late-cycle signals.

POSITIONING FOR WHAT COMES NEXT

As mentioned, we continue to like a value tilt across our equity exposure – this isn't to say that growth companies can't continue to march higher for the foreseeable future, however we believe that having a value tilt in the allocation provides the opportunity for better risk-adjusted returns moving

SECTOR PERFORMANCE (AS OF 09/30/2025)

SECTOR	INDEX WEIGHT	3Q RETURN	YTD RETURN	YTD AS OF 04/08/25	FORWARD P/E	20-YEAR AV. P/E
Energy	2.9%	6.2%	7.0%	-9.5%	15.2x	13.6x
Materials	1.8%	3.1%	9.3%	-10.9%	20.1x	15.5x
Financials	13.5%	3.2%	12.8%	-8.7%	16.8x	12.8x
Industrials	8.3%	5.0%	18.4%	-11.4%	24.5x	16.7x
Consumer Disc.	10.5%	9.5%	5.3%	-23.0%	29.3x	20.3x
Technology	34.8%	13.2%	22.3%	-24.1%	30.4x	18.5x
Comm. Services	10.1%	12.0%	24.5%	-14.5%	21.3x	18.8x
Real Estate	1.9%	2.1%	5.3%	-8.2%	17.3x	17.3x
Health Care	8.9%	3.8%	2.6%	-2.9%	16.8x	15.1x
Consumer Staples	4.9%	-2.4%	3.9%	-1.3%	21.3x	17.8x
Utilities	2.3%	7.6%	17.7%	-2.8%	18.7x	15.9x
S&P 500	100.0%	8.1%	14.8%	-15.0%	22.8x	16.1x

Source: JPMorgan "Guide to the Markets"; Bloomberg, dates as of 09/30/2025

forward. Favoring quality, in our view, is also the correct positioning within fixed income. Maintaining a duration, a measure of interest rate risk, neutral positioning is optimal, from our perspective, and will help avoid unintended consequences of historically tight credit spreads and possible defaults on the outer edges of the credit market.

WHAT TO WATCH

We continue to monitor labor market softness, indicators of reacceleration in inflation, and the health of the US consumer. In our view, these items are the largest macro factors that can shift market sentiment quickly. However, it is fair to point out that market participants see these signs as stable, perhaps softening in areas, but not a sign of alert – this can paint the

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backdrop for a solid 4th quarter to end what would go down as another historical year in equity markets. In this environment it is our goal to capture as much of the upside without sacrificing principles of diversification and long-term investment horizons. Valuations remain high from any measure, and investor expectations are elevated. In this environment, fundamentals matter more than ever.

FINAL THOUGHTS: CONVICTION OVER REACTION

One of the most important decisions this year wasn't an allocation shift or a reaction to headlines, it was the decision to not flinch when the noise got loud. This will continue to be our preference until we see deterioration or positive signals from here in the actual underlying data.

We watched as headlines screamed "Recession!", "Stagflation!", and "AI Bubble!", each vying for the spotlight and the steering sentiment. But instead of chasing narratives, we stayed anchored. That restraint, unexciting, unglamorous, but profoundly effective, kept us in position to benefit from fundamentals doing their quiet work.

In a year when many portfolios played whack-a-mole with news cycles, we chose consistency over choreography.

In times of noise, patience is a position.

Looking ahead, we remain constructively positioned. We expect volatility, but also opportunity. Our positioning remains grounded in valuation, earnings quality, and macro awareness.

As always, we appreciate the confidence you have placed in Market Street and remain committed to our investment principles on your behalf.

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